

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1361-01
Bill No.: HB 741
Subject: Medical Procedures and Personnel; Revenue Dept.; Taxation and Revenue -
General and Income
Type: Original
Date: March 5, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$1,868,187 to Unknown)	(\$1,936,062 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$1,868,187 to UNKNOWN)	(\$1,936,062 to UNKNOWN)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction for the first \$6,000 a taxpayer has paid for custodial care and durable medical equipment not compensated for by insurance. The amount paid by the taxpayer must be included in the taxpayer's federal adjusted gross income and not allowed as a credit pursuant to the Internal Revenue Code.

The number of taxpayers eligible for this subtraction is unknown at this time. Assuming DOR will require documentation and verify this documentation, the Division of Taxation will need one temporary tax season employee for every 37,500 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation. Customer Assistance anticipates additional calls from this legislation and will need one Collection Technician I for every 24,000 calls per year received due to this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$47,582. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$9,570 for on-going costs.

Oversight assumes the Department of Revenue would require 346 hours of overtime at a cost of \$17,300 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$9,007 for additional storage and fields to be captured.

In a similar prior proposal, **Office of Administration, Budget and Planning (BAP)** officials stated the number of taxpayers eligible for this subtraction is unknown.

Oversight assumes there are no statistics available on how much durable medical equipment expenditures are in Missouri; therefore, national data was used. **Oversight** used the national expenditures for "Vision Products and Other Medical Durables" as reported by the Health Care Financing Administration. Those expenditures were then reduced by 46%, which is the estimated retail sales of optical goods (eyeglasses, contacts, etc.) in the United States according to the U.S. Census Bureau, 1997 Economic Census data, leaving just durable medical equipment expenditures. Those expenditures were then multiplied by 17% to reflect the percentage of health expenditures that are paid for Out-of-pocket. Those expenditures were multiplied by 1.9% to represent Missouri's portion of the national total. A marginal tax rate of 6% was assumed. No information or statistics were available for out-of-pocket expenses for custodial care.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Deduction for Durable Medical Equipment	\$0	(\$1,841,880)	(\$1,936,062)
Deduction for Custodial Care	\$0	(Unknown)	(Unknown)
<u>Cost - Department of Revenue</u>			
Programming costs	\$0	(\$26,307)	\$0
Personal Service	\$0	(Unknown)	(Unknown)
Fringe Benefits	\$0	(Unknown)	(Unknown)
Expense and Equipment	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Total Costs - DOR		(\$26,307 to	\$0 to
	<u>\$0</u>	<u>Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,868,187 to Unknown)</u>	<u>(\$1,936,062 to Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill authorizes a resident individual income tax deduction equal to 100% of the amount paid by a taxpayer for custodial care and durable medical equipment during the taxable year to the extent the costs are included in their federal adjusted gross income and to the extent the expenditures are not reimbursed by insurance.

The bill will become effective January 1, 2002.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

This proposal would result in a decrease in Total State Revenues.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Budget and Planning

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "Jarrett".

Jeanne Jarrett, CPA
Director
March 5, 2001